

## **CITY OF DURHAM** | NORTH CAROLINA

Date: September 6, 2011

To: Tom Bonfield, City Manager

Through: Wanda Page, Deputy City Manager

From: David Boyd, Finance Director

**Chad Cowan, Treasury Manager** 

Subject: Private Placement Financing, Series 2011

# **Executive Summary**

The Finance Department is proposing a private placement installment financing issue scheduled for October of 2011. This financing, as planned, will be for an amount not to exceed \$3,100,000.00 to fund the Fleet Department's acquisition process, as approved by City Council during the 2011-12 Budget process.

#### Recommendation

The Finance Department recommends that the City Council:

- 1. Adopt the resolution authorizing the installment financing contract and other related items.
- Authorize the City Manager or his designee to execute other associated legal
  documents as necessary to complete this transaction and to make changes to any of
  the legal documents prior to execution, so long as the changes are consistent with
  the intent of the agenda item memo and the existing versions of the documents.

The resolution recommended for adoption by the City Council provides for the following:

- Approve all actions and transactions related to the proposed financing.
- Authorize the execution of the Contract related to the financing and authorize and empower the financing team to execute such documents related to the contract.
- Authorize the City Attorney or his designee to file a UCC Financing Statement.

## **Background**

On February 6, 2006 the City Council received a report from Mercury Associates, a fleet management consulting firm, of the City's Fleet and Fleet Maintenance Operations. Among other things, the study addressed fleet utilization and "rightsizing" and service lifecycles and fleet replacements. The study found that the City was not doing an adequate job replacing its aging fleet and recommended an accelerated replacement schedule to reduce fleet maintenance costs. Since the 2006 report, the City has borrowed funds on three occasions to help fund its fleet acquisition plan. This is the fourth borrowing related to the fleet replacement plan. Previous borrowings are listed below:

 Borrowing:
 Par Amount

 2007 COPs:
 \$11,140,000.00

 2008 Installment Loan:
 8,820,000.00\*

 2010 LOBs:
 7,515,000.00

 Total:
 \$27,475,000.00

<sup>\*</sup> subsequently refunded by the 2010 LOBs.

The 2012 CIP included the purchase of 81 new vehicles City-wide for budgeted purchase price of \$3,868,778.00. This financing will fund the purchase of 62 vehicles for the General Fund (53) and the Solid Waste Fund (9) for approximately \$3,000,000.00. The remaining vehicles are for the Water/Sewer Fund (6) and the Stormwater Fund (13) and will be paid for using others sources of funding.

In continuing to maximize the replacement efforts with replacement dollars, Fleet uses best business practices, which includes using an objective vehicle scoring system and an annual utilization study of the entire fleet. This process minimizes "fleet-creep" and minimizes the possibility that replacement funds are used to replace underutilized vehicles or vehicles in a backup status. By keeping a modernized fleet, the City will continue to reduce our greenhouse emissions and allow for the service delivery of our public safety departments and our public works/water services departments.

## **Issues and Analysis**

Following thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a private placement of this financing will provide the City the best overall financing results. The Finance Department will be issuing Request For Proposals (RFP) in September to multiple banking institutions and, pending City Council approval of the resolution, will select the bidder with the most favorable terms for the City.

Private placement installment financings are typically marketed directly to an investor. In contrast, public sales – such as the 2010 Limited Obligations Bonds – require the hiring of an underwriter who negotiates the sale of the debt to a number of investors. Given the simplicity of a private placement, they can be undertaken without the use of credit rating agencies, an underwriter, and other market professionals such as underwriters counsel, a full service financial advisor, and trustees. For financings of this size and structure, they provide an excellent alternative to traditional bond sales. This transaction will be similar to the financing the City completed in 2008 for the acquisition of fleet vehicles and other projects.

#### **Alternatives**

City Council could choose to forego or delay this debt issuance; however, alternate funding sources for the purchase of vehicles has not been determined or provided in the budget. This would cause significant delays in the Fleet Department's ability to continue to update the City's fleet.

# **Financial Impact**

The debt service on this financing, as outlined below, will be paid from property tax revenue as was anticipated in the newly adopted tax rate and the debt projections reviewed by Council previously.

The issuance of debt for vehicle replacements will result in annual debt service payments for up to seven years. Based on an estimated rate of 2.75% and a repayment timeframe of five years, below are the estimated annual fiscal year debt service costs over the life of the financing:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FY2012	-	\$41,594	\$41,594
FY2013	\$571,000	75,336	646,336
FY2014	588,000	59,400	647,400
FY2015	605,000	42,996	647,996
FY2016	622,000	26,125	648,125
FY2017	639,000	8,786	647,786

Actual payments will be determined at the time of sale. The Finance Department will report the results of the sale and the actual debt service costs to the Council after the transaction has closed.

The financing team will be comprised of Parker Poe as Bond Counsel with an estimated fee of \$15,000. Stephens, Inc., the City's financial advisor, will play a limited role in the financing and will not charge the City for its participation.

Additionally, the Finance Department anticipates that the winning bidder may have a bank origination fee and potentially, a fee related to any legal advice that it requires. Any such additional costs will be included in determining the "best" bid for the City.

# **SDBE Summary**

There are no SDBE issues with regard to this item.

#### **Attachments**

Resolution (6 pages)

Form of Installment Purchase Contract (32 pages)